

**BEFORE THE TENNESSEE STATE BOARD OF EQUALIZATION**

IN RE:	Health Care Property Investors, Inc.	)	
	Dist. 9, Map 47G, Group A, Control Map 47G,	)	Blount County
	Parcel 1.02, S.I. 000	)	
	Dist. 19, Map 68, Control Map 68, Parcel 18.00,	)	
	S.I. 000	)	
	Commercial Property	)	
	Tax Year 2006	)	

**INITIAL DECISION AND ORDER**

**Statement of the Case**

The subject properties are presently valued as follows:

**Parcel 1.02**

<b><u>LAND VALUE</u></b>	<b><u>IMPROVEMENT VALUE</u></b>	<b><u>TOTAL VALUE</u></b>	<b><u>ASSESSMENT</u></b>
\$146,900	\$1,501,200	\$1,648,100	\$659,240

**Parcel 18.00**

<b><u>LAND VALUE</u></b>	<b><u>IMPROVEMENT VALUE</u></b>	<b><u>TOTAL VALUE</u></b>	<b><u>ASSESSMENT</u></b>
\$201,100	\$2,098,900	\$2,300,000	\$920,000

An appeal has been filed on behalf of the property owner with the State Board of Equalization. The undersigned administrative judge conducted a hearing in this matter on May 8, 2007 in Maryville, Tennessee. The taxpayer was represented by Laurence R. May, CMI. The assessor of property, Mike Morton, represented himself. Also in attendance at the hearing were Barry Mathis, Assistant Property Assessor, David Easter, Deputy Assessor, David Weaver, Deputy Assessor and Phil Williams, Deputy Assessor.

**FINDINGS OF FACT AND CONCLUSIONS OF LAW**

This appeal concerns the market value of two skilled nursing facilities located in Maryville, Tennessee. Parcel 1.02, a 75 bed facility, consists of a 3.51 acre tract located at 307 North 5<sup>th</sup> Street improved with a 24,480 square foot building. Parcel 18, a 187 bed facility, consists of an 11.64 acre tract located at 1012 Jamestown Way improved with a 50,098 square foot building constructed in 1973.

The taxpayer contended that parcels 1.02 and 18 should be valued at \$1,140,000 and \$1,309,000 respectively. In support of this position, the cost, income and sales comparison approaches were introduced into evidence for both properties.

With respect to parcel 1.02, Mr. May maintained that the cost, income and sales comparison approaches support value indications of \$1,147,000, \$1,123,700 (mortgage equity technique) - \$1,228,085 (debt coverage ratio technique), and \$1,125,000 respectively. Mr. May correlated the various indications of value at \$1,140,000.



With respect to parcel 18, Mr. May maintained that the cost, income and sales comparison approaches support value indications of \$1,341,000, \$1,103,300 (mortgage equity technique) - \$1,205,800 (debt coverage ratio technique), and \$1,496,000 respectively. Mr. May correlated the various indications of value at \$1,309,000.

The assessor contended that parcels 1.02 and 18 should be valued at \$1,588,000 and \$2,166,000 respectively. In support of this position, the cost, income and sales comparison approaches were introduced into evidence.

With respect to parcel 1.02, the assessor asserted that the cost, income and sales comparison approaches support value indications of \$1,588,000, \$1,395,300 and \$1,451,100 respectively. The assessor placed exclusive weight on the cost approach in his reconciliation.

With respect to parcel 18, the assessor asserted that the cost, income and sales comparison approaches support value indications of \$2,166,000, \$3,136,700 and \$2,707,000 respectively. Once again, the assessor placed exclusive weight on the cost approach in his reconciliation.

The basis of valuation as stated in Tennessee Code Annotated Section 67-5-601(a) is that "[t]he value of all property shall be ascertained from the evidence of its sound, intrinsic and immediate value, for purposes of sale between a willing seller and a willing buyer without consideration of speculative values . . ."

After having reviewed all the evidence in the case, the administrative judge finds that parcels 1.02 and 18 should be valued at \$1,346,000 and \$1,807,500 respectively. As will be discussed below, the administrative judge finds that the cost approach should be adopted as the basis of valuation in both cases.

The administrative judge finds that the cost approach has significantly more probative value than either the income or sales comparison approaches. With respect to the income approach, the administrative judge finds that neither party was understandably able to reliably establish the value attributable to tangible and intangible personal property which must be separated from the value of the real property for ad valorem tax purposes. See generally *Wolfchase Galleria Ltd. Partnership* (Administrative Judge, Shelby Co., Tax Years 2001-2003).

The administrative judge finds that Mr. May's analysis considered numerous comparable sales. Respectfully, the administrative judge finds that the sales data contained in his report lacks probative value for two primary reasons. First, the sales are located in different areas of the country and were seemingly selected because of either their historical relationship with the taxpayer or Mr. May's familiarity with them. Second, the sales were not adjusted despite the significant differences between the comparables and subject facilities.



The administrative judge finds that the assessor utilized sales from Tennessee and made adjustments. However, the administrative judge finds that Mr. May's cross-examination of Mr. Easter established that the assessor's office was simply unsure whether the various comparables did or did not have certain features that materially affect value such as an assisted living or dementia component.

The administrative judge finds that both parties' cost approaches have significant probative value. The administrative judge finds that the primary difference in their respective cost approaches concerned depreciation.

With respect to parcel 1.02, the administrative judge finds Mr. May established that it suffers a significant loss in value due to functional obsolescence. In particular, 39 of the 75 beds are located in 3 bed wards which are typically no longer built. This results in three persons sharing a bathroom and lacking the privacy associated with private and semi-private rooms. See, *Guidelines for Design and Construction of Hospital and Health Care Facilities* at 84-102 (2001 ed.) introduced into evidence as exhibit #7.

The administrative judge finds that the assessor's cost approach assumed 42% accrued depreciation whereas Mr. May's approach assumed 57.1% accrued depreciation. The administrative judge finds that when all the evidence concerning depreciation is viewed collectively, a rate of 52% appears most appropriate for parcel 1.02. The administrative judge finds that the remaining components of the parties' cost approaches do not differ to any significant extent. The administrative judge finds that the assessor's various cost figures were substantiated in somewhat more detail and should therefore be adopted. This results in the following value for parcel 1.02:

	<u>Units/%</u>	<u>Cost</u>	<u>Total</u>
Basic Structure			
Base Cost	24,480	73.74	1,805,155
Exterior Walls	24,480	13.92	340,762
Heating & Cooling	24,480	7.28	178,214
Sprinklers	24,480	2.51	61,445
Fire Alarm System	24,336	1.35	32,854
Basic Structure Cost	24,480	98.79	2,418,430
Less Depreciation			
Physical & Functional	52.0%		1,257,584
Depreciated Cost	24,480	47.42	1,160,846
Miscellaneous			
Extra Features			23,684
Site Value			161,500
Total Cost	24,480	54.98	1,346,030

With respect to parcel 18, the administrative judge finds Mr. May's assumption of a remaining economic life of only 10 years unduly pessimistic given its stable occupancy.



Accordingly, the administrative judge finds the 75% accrued depreciation assumed in Mr. May's cost approach excessive.

On the other hand, the administrative judge finds the 57% accrued depreciation assumed in the assessor's cost approach somewhat conservative given subject property's physical and functional inadequacies. For example, a separate laundry building would almost certainly never be constructed today. Similarly, the electrical system must be considered inadequate. Finally, although this facility has only one 3 bed ward and one 4 bed ward, there are 162 semi-private beds which share the bathroom with the adjacent room (i.e. 4 persons per bathroom).

The administrative judge finds that the preponderance of the evidence supports adoption of an accrued depreciation rate of 65%. Utilizing the remaining components of the assessor's cost approach for the reasons stated above, this results in the following value for parcel 18:

	<u>Units/%</u>	<u>Cost</u>	<u>Total</u>
Basic Structure			
Base Cost	50,098	69.76	3,494,836
Exterior Walls	50,098	12.28	615,203
Heating & Cooling	50,098	4.00	200,358
Sprinklers	50,098	2.19	109,715
Fire Alarm System	50,098	1.35	67,632
Basic Structure Cost	50,098	89.58	4,487,744
Less Depreciation			
Physical & Functional	65%		2,917,034
Depreciated Cost	50,098	31.35	1,570,710
Miscellaneous			
Extra Features			28,257
Site Value			208,500
Total Cost	50,098	36.08	1,807,467

ORDER

It is therefore ORDERED that the following values and assessments be adopted for tax year 2006:

**Parcel 1.02**

<u>LAND VALUE</u>	<u>IMPROVEMENT VALUE</u>	<u>TOTAL VALUE</u>	<u>ASSESSMENT</u>
\$146,900	\$1,199,100	\$1,346,000	\$538,400

**Parcel 18.00**

<u>LAND VALUE</u>	<u>IMPROVEMENT VALUE</u>	<u>TOTAL VALUE</u>	<u>ASSESSMENT</u>
\$201,100	\$1,606,400	\$1,807,500	\$723,000

It is FURTHER ORDERED that any applicable hearing costs be assessed pursuant to Tenn. Code Ann. § 67-5-1501(d) and State Board of Equalization Rule 0600-1-.17.

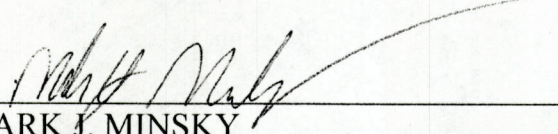
Pursuant to the Uniform Administrative Procedures Act, Tenn. Code Ann. §§ 4-5-301—325, Tenn. Code Ann. § 67-5-1501, and the Rules of Contested Case Procedure of the State Board of Equalization, the parties are advised of the following remedies:



1. A party may appeal this decision and order to the Assessment Appeals Commission pursuant to Tenn. Code Ann. § 67-5-1501 and Rule 0600-1-.12 of the Contested Case Procedures of the State Board of Equalization. Tennessee Code Annotated § 67-5-1501(c) provides that an appeal **“must be filed within thirty (30) days from the date the initial decision is sent.”** Rule 0600-1-.12 of the Contested Case Procedures of the State Board of Equalization provides that the appeal be filed with the Executive Secretary of the State Board and that the appeal **“identify the allegedly erroneous finding(s) of fact and/or conclusion(s) of law in the initial order”**; or
2. A party may petition for reconsideration of this decision and order pursuant to Tenn. Code Ann. § 4-5-317 within fifteen (15) days of the entry of the order. The petition for reconsideration must state the specific grounds upon which relief is requested. The filing of a petition for reconsideration is not a prerequisite for seeking administrative or judicial review; or
3. A party may petition for a stay of effectiveness of this decision and order pursuant to Tenn. Code Ann. § 4-5-316 within seven (7) days of the entry of the order.

This order does not become final until an official certificate is issued by the Assessment Appeals Commission. Official certificates are normally issued seventy-five (75) days after the entry of the initial decision and order if no party has appealed.

ENTERED this 25th day of May, 2007.

  
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MARK J. MINSKY  
ADMINISTRATIVE JUDGE  
TENNESSEE DEPARTMENT OF STATE  
ADMINISTRATIVE PROCEDURES DIVISION

c: Mr. Laurence May  
Mike Morton, Assessor of Property